

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SSO-00 NSCE-00 INRE-00 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06

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OMB-01 NSC-05 SS-15 STR-04 CEA-01 H-02 PA-01 PRS-01

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FM AMEMBASSY HELSINKI

TO USMISSION OECD PARIS IMMEDIATE

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E.O. 11652: N/A

TAGS: ECON, OECD, FI

SUBJECT: EDRC ANNUAL REVIEW OF FINLAND

REF: A) OECD PARIS 30393; B) HELSINKI 2272

1. FOLLOWING ARE EMBASSY COMMENTS ON REF A AND ADDITIONAL INFORMATION WHICH MAY BE USEFUL IN ANNUAL REVIEW. EMBASSY CONCURS IN OECD MISSION COMMENTS AND PROPOSED POINTS TO RAISE.

2. BANK OF FINLAND HAS ANNOUNCED IT WILL REDUCE LENDING TO COMMERCIAL BANKS AT SAME RATE AS IMPORT DEPOSITS ARE RETURNED TO IMPORTERS (REF B). THEREFORE, IT IS NOT LIKELY THAT THERE WILL BE RAPID INCREASE IN LIQUIDITY WHILE IMPORT DEPOSIT SCHEME IS DISMANTLED. IN SEPT 75 AT ABOUT SAME TIME AS FIRST IMPORT DEPOSITS WERE DUE TO BE RETURNED, BANK OF FINLAND REDUCED CEILING ON COMMERCIAL BANK BORROWING FROM CENTRAL BANK BY 10 PERCENT WHICH IN PRACTICE REDUCED COMMERCIAL BANK LENDING BY SAME AMOUNT.

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3. MINISTRY OF FINANCE (MF) OFFICIAL TOLD EMBOFF THAT THE GOVERNMENT HAS NOT YET DECIDED NOW AND WHEN TO DISMANTLE DEPOSIT SCHEME. AS PART OF IMF BORROWING PACKAGE, IN JUNE 75 BANK OF FINLAND EXPRESSED INTENTION TO DISMANTLE SCHEME IN MARCH 76 OR TO FURTHER CONSULT WITH IMF. THE UNDERSTANDING LEFT METHOD AND TIMING VAGUE. MF OFFICIAL STATES THAT GOVERNMENT HAS LEGAL AUTHORITY TO CONTINUE SCHEME UNTIL DEC 76. SAME MF OFFICIAL SAYS THAT ALTHOUGH THERE IS NO GOVERNMENT DECISION ON TIME FOR DISMANTLEMENT OF SCHEME, WHEN THE DISMANTLEMENT OCCURS IT WILL TAKE PLACE IN STAGES. THIS COULD MEAN EITHER PROGRESSIVE LOWERING OF DEPOSIT REQUIREMENTS OR A SELECTIVE RELEASE OF CATEGORIES OF PRODUCTS FROM SCHEME OR BOTH.

4. MONETARY POLICY IN PAST SIX MONTHS HAS BEEN MORE RESTRICTIVE, AND EMBASSY BELIEVES MORE REALISTIC THAN IN 1974/EARLY 75, WHEN GOVERNMENT AND BANK OF FINLAND BELIEVED WESTERN RECESSION WAS SHORT-TERM PHENOMENON WHICH FINLAND COULD "RIDE OUT" BY FOREIGN BORROWING.

5. FINLAND HAS HAD CARETAKER GOVERNMENT SINCE COALITION FELL APART IN JUNE 1975 OVER ECONOMIC POLICY ISSUES. SINCE SEPT ELECTION DID NOT SUBSTANTIALLY ALTER PARTY BALANCE IN PARLIAMENT, FORMATION OF NEW GOVERNMENT HAS BEEN A PROTRACTED AND AS YET UNSUCCESSFUL NEGOTIATION. NATIONAL BUDGET WAS PREPARED BY CARETAKER GOVERNMENT AND SUBMITTED TO PARLIAMENT, WHERE POLITICAL PARTIES ARE LIKELY TO BECOME EMBROILED OVER A MULTITUDE OF BUDGETARY ISSUES. WAGE NEGOTIATIONS HAVE BARELY STARTED, AND NO CONSENSUS IS IMMEDIATELY FORESEEABLE. ABOVE UNCERTAINTY HAS RESULTED IN LACK OF INTEGRATED ECONOMIC POLICY, AND HAS RESULTED IN REAL ECONOMIC MANAGEMENT BEING CONDUCTED BY BANK OF FINLAND PRIMARILY WITH MONETARY TOOLS.

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## Message Attributes

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